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Foremost finds opportunity in Germany

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LONDON—[Foremost Hospitality GmbH](#) is putting its faith in the German hotel market with a commitment to build 20 Holiday Inn and Holiday Inn Express properties by 2016, but it's not without careful research and planning.

Usama Dessoky, managing director of London-based Foremost Leisure Ltd., which is a preferred partner of Holiday Inn parent company IHG, said Germany looks to be following the history of the United Kingdom in that three-star hotels are turning to international brands.



Holiday Inn Express Berlin City Centre (West).

Performance for Germany also supports Foremost's plans: In 2008, average daily rate increased 5.1 percent and revenue per available room increased 3.6 percent year over year, according to STR Global data. ADR in Germany historically is low compared to the rest of Europe, which allows for growth, according to Dessoky.

"We believe that the focused-service asset class will benefit in the downturn," he said. "The nearest comparable to that would be the U.S. recession in the early '90s – Holiday Inn and Crowne Plaza occupancy and ADR decreased in '90 to '93, but Holiday Inn Express increased by 10 to 12 percent. The only thing we would encounter would be the availability of debt, but we're still able to obtain funding in Germany to proceed with the program."

Dessoky said the company most recently obtained funding for a hotel in the Hamburg-St. Pauli area from a local lender, a state bank.

"Again, (banks) like the asset class," he said. "Holiday Inn Express has mainly proved to be successful. We have two open in Germany right now, so banks are now making the approach to us."

While obtaining funding might be easy for Foremost, the cost is higher than it had been in the past, Dessoky noted.

Foremost developed one hotel with the German Catholic Church—a 179-room Holiday Inn Express converted from an office building—and expects to do more deals with the organization and convert more space.

"We feel there are many office buildings in Germany that could be converted, which could speed up our expansion as well," Dessoky said. "It's quicker to refurbish a building than obtain land, get contracts, etc."

There are four strong markets within Germany that Foremost will target: Berlin, Frankfurt, Hamburg and Munich. All four cities posted ADR and RevPAR gains in 2008, with the exception of a RevPAR decline in Munich, according to STR Global.

Bottom line, Dessoky believes that the midscale-without-food-and-beverage segment is the best opportunity right now.

"The focused-service hotel business in my opinion is the best investment to conduct in the current market conditions because they are resilient to recessions," he said. "People tend to downsize and the new generation of focused service is almost as good as the four-star asset class but not offering things people don't want and they're not paying for them in the rate. It's very cash-flow positive and the level of staff is quite minimal."

"As long as you build in the right location, it's the best investment in the next five years."

Of the 20 properties within the agreement, seven hotel contracts already are signed and

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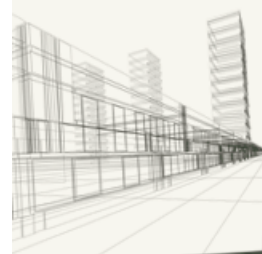
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development is under way, according to a release from IHG. These include the November signing of the 328-room Holiday Inn Berlin City Centre – Potsdamer Platz, which is expected to open in March 2011, and the 150-room Holiday Inn Express Berlin City Centre – Alexander Platz, which is scheduled to open in March 2010.

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